DEPARTMENT OF FINANCE: INLAND REVENUE
OFFICE OF THE COMMISSIONER FOR INLAND REVENUE
PRACTICE NOTE: NO 19
DATE: 30 APRIL 1993

INCOME TAX: DEDUCTION IN RESPECT OF WEAR AND TEAR OR DEPRECIATION IN TERMS OF SECTION 11(e) OF THE INCOME TAX ACT: MACHINERY, PLANT, IMPLEMENTS, UTENSILS AND ARTICLES (INCLUDING VEHICLES AND EQUIPMENT) (EXCLUDING LEASED ITEMS AS CONTEMPLATED IN PRACTICE NOTE NO 15 DATED 16 MARCH 1992)

1. In terms of the provisions of section 11 (e) of the Income Tax Act (the Act), such amount [hereinafter referred to as 'the section 11 (e) deduction'] as the Commissioner may think just and reasonable as representing the amount by which the value of any machinery, plant, implements, utensils and articles (excluding machinery, plant, implements, utensils and articles in respect of which a deduction may be granted in terms of section 12B or 12C of the Act) used by the taxpayer for the purpose of his trade, has been diminished by reason of wear and tear or depreciation during the tax year, will be allowed as a deduction.

2. The section 11 (e) deduction is normally calculated on the diminishing value of an asset, i.e. on the value remaining after the deduction of wear and tear or depreciation in respect of previous tax years. However, subject to the satisfaction of the requirements set out in paragraph 3 below, a taxpayer could be allowed to calculate the section 11 (e) deduction on the straight-line basis on the cost of the asset to the taxpayer. [Note: Cost in relation to an asset for the purposes of the wear and tear allowance is deemed to be the cost price which, at the discretion of the Commissioner, would have been incurred has such asset been acquired in terms of a cash transaction negotiated at arm's length, including the direct cost of installation or erection, but taking into account any recoupment in terms of section 8 (4) (e) of the Act. In this regard, see proviso (vii) to section 11 (e) of the Act. Where an asset has been acquired by the taxpayer by way of a donation or bequest, the value (cost) shall be deemed to be its retail value at the time of such donation or bequest.] It has always been the practice that, where a taxpayer preferred that the value of an asset be reduced on the straight-line basis, he had to submit such a request to his Receiver of Revenue. Each request was then considered on its merits.

3. It has now been decided that where a taxpayer elects to depreciate the cost of an asset acquired by him on the straight-line basis, it will not be necessary for him to obtain the Receiver of Revenue's permission. He will, however, be required to comply with the following requirements in respect of the assets to which such method will be applied:
   3.1 Adequate records must be maintained.
   3.2 The straight-line method must be applied to all assets of the same class.
   3.3 The annual tax return must include a schedule disclosing the following information in respect of each asset disposed of during the year:
   3.3.1 The date of acquisition as well as the original cost.
   3.3.2 The income tax value at the end of the immediately preceding tax year.
   3.3.3 The price realised on disposal or scrapping as well as the tax value of any profit or loss.
   3.4 An asset written off in full must be brought into account at a residual value of R1 for record purposes.
   3.5 The records to be maintained must be such that it will be possible for the afore-mentioned details of an asset to be established at any point in time.

4. Where a taxpayer applies the straight-line basis, the asset must be written off in equal annual instalments over its estimated useful life. The section 11 (e) deduction must be reduced proportionately if the asset was acquired and commissioned during the year.

5. The attached schedule contains examples of write-off periods acceptable to Inland Revenue. Where a taxpayer is of the opinion that another period should apply to an asset mentioned in the Schedule, prior consent will have to be obtained in writing from the relevant Receiver of Revenue. In respect of any asset not included in the schedule the proposed write-off period must be motivated in writing upon submission of the tax return for the relevant tax year to enable the Receiver of Revenue to decide whether or not the period is justified. It is, however, recommended that taxpayers obtain approval for such other period or, if the asset does not appear in the schedule, for the proposed write-off period, from the Receiver of Revenue concerned before submitting their tax returns.

6. Where a taxpayer acquires 'small' items (loose tools etc.) at a cost less than R2000 per item he may write such assets off in full during the year of acquisition. For this purpose a 'small'

item is regarded as an item which normally functions in its own right and is not an individual item that forms part of a set. For example, a table and six chairs which plainly form part of a set cannot be divided into individual independent items costing less than the specified amount. Where the cost of such a set amounts to more than R250, it cannot be written off in full in the year in which it is acquired.

7. Where an asset is used for more than one shift, resulting in the life thereof eventually being less than the periods mentioned in the schedule, a fully motivated application for a shorter write-off period may be made to the Receiver of Revenue concerned.

8. Where a taxpayer has claimed a deduction on existing assets in terms of the diminishing balance method, but has elected that the balance of such assets be written off on the straight-line basis in future, such assets will have to be written off over the remaining period (as laid down in the schedule). In other words, where in terms of the schedule an asset may be written off over a period of five years on the straight-line basis, but R360 (R200 + R160) has already been written off against an original cost of R1 000 on the diminishing balance method, the balance of the cost (R640) must be written off in equal annual instalments over the remaining three years. Where the original cost of an asset amounted to less than R2000, the balance on change-over to the straight-line basis may be written off in full in the year of change-over (subject to the provisions of paragraph 6 above).

9. The write-off periods will apply in respect of all tax returns submitted on or after the date of issue of this practice note. It is, however, not the intention to reopen assessments already issued and in which some other write-off period was used.

10. Where used assets are acquired by a taxpayer, such assets may be written off over the expected life of those assets taking into account the condition thereof. Such assets must be detailed clearly in a separate schedule and submitted with the tax return to the Receiver of Revenue concerned.

11. When a taxpayer changes the calculation of the section 11 (e) deduction in respect of any such asset from the diminishing balance method to the straight-line basis, he must notify the Receiver of Revenue in writing to that effect upon the submission of his return of income for the relevant year.

SCHEDULE TO PRACTICE NOTE 19
WRITE-OFF PERIODS ACCEPTABLE TO INLAND REVENUE

ITEM	PERIOD OF WRITE-OFF (NUMBER OF YEARS)
Adding machines	6
Air conditioners (window type, moving parts only)	6
Aircraft: Light passenger/commercial/helicopters	4
Arc welding equipment	6
Balers	6
Battery chargers	5
Bicycles	4
Bulldozers	3
Burglar alarms (removable)	10
Calculators	3
Cash registers	5
Cheque writing machines	6
Cinema equipment	5
Cold drink dispensers	6
Compressors	4
Computers (main frame)	5
Computers (personal computers)	3
Computers software (main frames):	
- Purchased	3

- Self-developed	1
Computers software (personal computers)	2
Concrete transit mixers	3
Crop sprayers	6
Curtains	5
Debarking equipment	4
Delivery vehicles	4
Demountable partitions	6
Dental and doctors equipment	5
Dictaphones	3
Drilling equipment (water)	5
Drills	6
Electric saws	6
Electrostatic copiers	6
Engraving equipment	5
Excavators	4
Fax machines	3
Fertiliser spreaders	6
Fire extinguishers (loose units)	5
Fishing vessels	12
Fitted carpets	6
Fork-lift trucks	4
Front-end loaders	4
Furniture and fittings	6
Gantry cranes	6
Garden irrigation equipment (movable)	5
Gas cutting equipment	6
Gas heaters and cookers	6
Gear shapers	6
Graders	4
Grinding machines	6
Guillotines	6
Gymnasium equipment	10
Hairdressers equipment	5
Harvesters	6
Heat dryers	6
Heating equipment	6
Incubators	6
Ironing and pressing equipment	6
Kitchen equipment	6
Knitting machines	6
Laboratory research equipment	5
Lathes	6
Laundromat equipment	5
Lift installations (goods)	12
Lift installations (passengers)	12
Medical theatre equipment	6
Milling machines	6

Mobile caravans	5
Mobile cranes	4
Mobile refrigeration units	4
Motorcycles	4
Motorised chain saws	4
Motorised concrete mixers	3
Motor mowers	5
Musical instruments	5
Neon signs and advertising boards	10
Ovens and heating devices	6
Ovens for heating food	6
Paintings (valuable)	25
Pallets	4
Passenger cars	5
Patterns, tooling and dies	3
Perforating equipment	6
Photocopying equipment	5
Photographic equipment	6
Planers	6
Pleasure craft etc.	12
Ploughs	6
Portable concrete mixers	4
Portable generators	5
Portable safes	25
Power tools (hand operated)	5
Public address systems	5
Radio communication equipment	5
Refrigerated milk tankers	4
Refrigeration equipment	6
Refrigerators	6
Sanders	6
Scales	5
Seed separators	6
Sewing machines	6
Shop fittings	6
Solar energy units	5
Special patterns and tooling	2
Spin dryers	6
Spot welding equipment	6
Staff training equipment	5
Surveyors:	
- Instruments	10
- Field equipment	5
Tape-recorders	5
Telephone equipment	5
Television and advertising films	4
Television sets, video machines and decoders	6
Textbooks	3

Tractors	4
Trailers	5
Traxcavators	4
Trucks (heavy duty)	3
Trucks (other)	4
Truck mounted cranes	4
Typewriters	6
Vending machines (including video game machines)	6
Video cassettes	2
Washing machines	5
Water distillation and purification plant	12
Water tankers	4
Water tanks	6
Weighbridges (movable parts)	10
Workshop equipment	5
X-ray equipment	5

Practice Note 19 was modified and extended by Practice Note 39. The two practice notes should therefore be read together.